Small Firms Association

The Voice of
Small Business

Small Firms Association
84/86 Lower Baggot Street
Dublin 2, D02 H720

t: +353 1 605 1500
e: info@sfa.ie
w: sfa.ie

Small Firms Association

Action Plan for Jobs 2018

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Small Firms Association is part of Ibec clg which is registered in Ireland. Registration No. 8706
Directors - Anne Heraty (President), Edel Creely, Leo Crawford, Gerry Collins, Larry Murrin, John Kennedy, Danny McCoy, Liam O'Donoghue, Paraic Curtis, Kevin Toland, Brian MacCraith, Siobhan Talbot, Patrick Manley, Alastair Blair, Richie Boucher, Frank Gleeson, Cathriona Hallahan, Tony Smurfit.

@SFA_IRL
linkedin.com/company/small-firms-association

Introduction

The Small Firms Association (SFA) is the trusted partner of small businesses in Ireland, with 8,500 members and four affiliated organisations in all sectors and parts of the country. Its mission is to deliver business-focused advice and insights to member companies, influence government policy to the benefit of small businesses and connect its members in a thriving community. The SFA has a vision of Ireland as the most vibrant small business community in the world – supporting entrepreneurship, valuing small business and rewarding risk takers.

The SFA welcomes the opportunity to outline proposals and ideas that will assist small businesses with job retention and creation.

Small firms and employment

The economic importance of small firms cannot be overstated. Nowhere are small firms more important than in the labour market. Firms with fewer than 50 employees account for 49.5% of total persons employed in Ireland's private sector, some 700,000 people. Small businesses provide more than half of total employment in 21 counties, so are at the heart of regional economic development and vibrant towns and villages.

Getting more people into employment is the best way to tackle poverty, spread the gains from the recovery and reduce income inequality. This is particularly true in Ireland where the link between work and poverty is the weakest in Europe, i.e. people in work are much less likely to be in poverty. Greater employment also has positive implications for the Exchequer and for communities around the country.

Unemployment has fallen to 6.4%, which means that Ireland is approaching full employment. In addition to sustaining the jobs that this represents, it is crucial to be ambitious about future job creation. This includes supporting existing businesses of all sizes to increase their headcount and encouraging more people to set up businesses to provide jobs for themselves and potentially for others.

On this basis, the SFA has set out proposals to support job retention and creation in small firms.

SFA proposals for the Action Plan for Jobs 2018

ONE BIG IDEA:

1. Create a public awareness campaign to recognise and celebrate small business and the sector's contribution to the Irish economy

PRIORITY PROPOSALS:

2. Introduce structured 'job-proofing' of all policy proposals
3. Publicise job creation announcements in small companies
4. Improve ease of casual and part time employment for jobseekers and employers

5. Introduce a voucher for domestic services to encourage labour market participation and reduce the shadow economy
6. Introduce a Finance Voucher scheme for small businesses to use on financial training or consultancy

OTHER PROPOSALS:

Theme: Maintaining and enhancing resilience, productivity and competitiveness

7. Track and monitor business costs that are influenced by Government policy
8. Curb the increasing administrative burden on small businesses
9. Improve access of indigenous small businesses to research funding
10. Review supports available for domestically trading sectors that currently receive little government support

Theme: Supporting and fostering enterprise via actions including the following:

- **Growing Irish companies and enhancing their agility and resilience to the changing external environment for trading**

11. More practical use of the Irish embassy network to generate local business leads for companies

- **Driving entrepreneurship and start-up companies**

12. Create structures to encourage second chance entrepreneurship
13. Phase in employer PRSI for new companies

Theme: Accelerating regional development and growth

14. Ensure all areas have access to broadband and good mobile service
15. Build the capacity of community enterprise centres

Theme: Delivering the skills for maintaining a talented and dynamic workforce

16. Roll out a skills health check for small firms
17. Reorient the National Training Fund to activate in-work training

Theme: Addressing new labour market challenges, such as expanding labour market participation across all sections of society

18. Commission a study on the labour market implications of automation with a view to developing a whole-of-government roadmap

Theme: Ensuring access to competitive finance

19. Limit right of banks to ask for personal guarantees
20. Establish a Government-led working group on equity finance
21. Increase promotion of Government enterprise supports
22. Increase threshold for investment of private pension funds in business
23. Extend Small Claims remit for B2B debts

THEME: Identifying a small number of big ideas and reforms that could make meaningful impacts on the business environment.

#1 Create a public awareness campaign to recognise and celebrate small business and the sector's contribution to the Irish economy

Small businesses are the lifeblood of the Irish economy. 99% of all businesses in the country are small (less than 50 employees). They account for half of private sector employment, one-third of value added and one-third of investment. They exist in every single village, town and city.

In a thriving economy, diversity is essential and a vibrant small business community, from lone sole traders up to high-tech exporting companies looking to scale, is a crucial dimension.

A public awareness campaign would be a powerful tool in boosting public perceptions of small business and giving confidence to the firms themselves. This campaign would be led by government and in conjunction with entrepreneurs, employees in small businesses and business representative organisations,

The Small Firms Association is ready to partner with government to provide the personal stories that could animate such a campaign and demonstrate the creativity, innovation and resilience of Irish entrepreneurs and firms.

PRIORITY PROPOSALS:

#2 Introduce structured 'job-proofing' of all policy proposals

Many different government departments have an impact on the cost and ease of employment, which they may not realise or may not prioritise. As a general principle, every policy emanating from Government should be 'job-proofed'. This already happens to a certain extent but the SFA would support the process being expanded and formalised.

In cases where a regulatory impact assessment (RIA) is conducted, a review of the impact on jobs can be incorporated into the RIA. This should be addressed in the new impact assessment guidelines, which are due to be issued under the Programme for Partnership Government

A method must be also devised to assess the impact on job retention and creation for those policies that are not subject to RIA (currently the majority of legislation). This could form part of the SME test, the development of which is an action under the Action Plan for Jobs 2017 (due for delivery in Q4 2017).

In addition, it should be an explicit responsibility of Ministers/Secretaries General to examine the job creation/retention impact of all policies that are proposed by their departments. Oireachtas committees should have the same brief in relation to Private Members Bills.

These changes have the potential to create a cultural shift among policy makers that would maximise job retention and enhance job creation permanently

#3 Publicise job creation announcements in small companies, demonstrating the cumulative impact

The Government should organise press conferences and photocalls for job creation announcements in small companies, the same way they do for large job announcements. A number of small companies should be grouped together to highlight the cumulative effect in a particular sector or locality. This would create a positive connection between the Government and small business and give a boost to this important cohort of the economy.

This measure would contribute to creating a more positive culture around small business, in Government, the media and the public at large. This would give a boost to existing businesses, encourage people to seek employment in small companies and promote entrepreneurship by demonstrating positive recognition of small businesses.

If a decision was taken by the Minister for Enterprise and Innovation to schedule time for these press conferences/photocalls periodically, the Small Firms Association and Local Enterprise Offices would identify and nominate the small companies that are creating jobs in that period.

#4 Improve ease of casual and part time employment for jobseekers and employers

One issue raised time and time again by SFA members is the difficulties they face in getting people on social welfare to take up a job or increase their hours.

Part time work has been shown to be a stepping stone to full time employment across Europe. It can play an important role in allowing people to test how working can be combined with other responsibilities, for example caring for children or elderly relatives. However, the Irish social welfare system disincentivises jobseekers from taking up part time work.

To encourage jobseekers to take up part time work, social welfare should be calculated on an hourly basis or aggregated over the course of a week. This would allow casual and part time workers to sign off only for those periods when they are working and not be penalised.

Tapering of payments as a person enters the workforce and increases their hours of work is another area that requires consideration. Withdrawal conditions should be reviewed for university grants, medical cards and other supports received by unemployed low-income families.

Furthermore, it should be made easier for a small business to hire casual staff. Currently there is a plethora of paperwork if an employer wants to hire someone casually. Simplified administration would remove obstacles, make it easier for businesses to grow organically and reduce the shadow economy. Currently, the legal responsibilities, administrative burden and regulations concerning hiring employees are a major deterrent to job creation.

A new national internship scheme would assist many jobseekers to transition to work and create a simplified process for employers. This should be introduced as soon as possible.

#5 Introduce a voucher for domestic services to encourage labour market participation and reduce the shadow economy

While Ireland is nearing full employment, low labour market participation, in particularly among females, remains a persistent feature of the Irish economy. Participation rates for females are 15 percentage points lower than their male counterparts – one of the widest gaps of any European country. When employment rates are considered in terms of full-time equivalents the gap between men and women in Ireland is even greater.

Women's ability to participate in the labour market is constrained by the fact that they spend more time on unpaid work: four times as much on care work (time spent to care for a child or another adult) and twice as much on household work, than men, regardless of the employment status of partners, making them less available for employment.

Specific measures targeting increased participation should be introduced in the Action Plan for Jobs 2018. One example from elsewhere in Europe is a voucher system for domestic services such as cleaning and elderly care. These could either be offered free of charge to those working above a certain number of hours (as in some German cities) or be made available for purchase with part of the price eligible to be claimed as a tax credit (as in the titres-services model in Belgium). The vouchers can be redeemed against domestic services from registered agencies.

This system has the potential to assist people to balance employment and responsibilities at home. It has potential positive implications for quality of life and mental health. The use of registered agencies ensures that insurance is in place, PRSI is paid and that the workers are entitled to the full protection provided by Irish employment law. An added benefit of such a scheme is that it shifts activity away from the shadow economy.

#6 Introduce a Finance Voucher scheme for small businesses to use on financial training or consultancy

There is a particularly acute need to develop financial skills within small firms. The current weakness in financial literacy and financial management skills has been highlighted as a barrier to accessing bank funding and to small business growth.

Previously, Skillnets offered financial training for small firms through the ManagementWorks Finance4Growth programme. Despite the calibre of the programme, demand/uptake was low, so a new approach is needed.

A Finance Voucher scheme should be introduced (similar to the Trading Online Voucher) which would be open to all small companies to assist them in gaining specialist advice or for training staff, for example on preparing funding applications or cash flows. A small investment of €2,000 per company could be provided to companies who apply. This could be rolled out through the Local Enterprise Offices.

A successful Finance Voucher has the potential to increase the survival rate of small and new firms, as well as increasing the ability of small firms to scale.

OTHER PROPOSALS:

THEME: Maintaining and enhancing resilience, productivity and competitiveness

#7 Track and monitor business costs that are influenced by Government policy

The rising cost of doing business is currently the biggest concern of small firms in Ireland. Higher business costs create challenging conditions and greater uncertainty for business, under which they are less likely to retain and create employment.

Government should track and monitor business costs and curb those on which it has influence and control, e.g. labour costs (minimum wage, JLC rates, administrative burden), insurance costs, interest rates, education costs, transport costs and energy costs.

There is a wealth of business cost data and analysis available from the National Competitiveness Council. This information, for example from the annual 'Cost of Doing Business in Ireland' report, should be better utilised by policy makers and form the basis for policy actions, or indeed for the rejection of certain proposals that would increase the cost burden on businesses.

The SFA recommends:

- Examine cost monitoring already in place through the CSO, the National Competitiveness Council and other bodies, and make changes if needed in order to ensure that policy makers have access to robust data on business costs.

- Design a method for relevant departments to respond to the findings of the monitoring in a structured way and take action to curb costs that are found to be rising.

#8 Curb the increasing administrative burden on small businesses

Regulatory/administrative burden has long been a concern for small business. In recent months, however, there has been a noticeable increase in members contacting the Small Firms Association to express frustration at increasing paperwork and lack of joined up policies across a variety of government departments and agencies.

Specific details have been provided to SFA relating to:

- Companies Registration Office
- Revenue
- Local authorities
- Planning authorities
- Local Action Groups (re LEADER funding)

This is damaging the relationship between businesses and government and eroding the confidence that small firms have in these bodies. To quote one SFA member company: "I used to think that Revenue were there to assist businesses but not anymore".

With the start date for the General Data Protection Regulation approaching, this adds another reason for government to collect only that information which is absolutely essential for carrying out its duties in terms of ensuring compliance and delivering services.

In all cases it must be ensured that proprietary company information is not made available publicly on government websites.

The SFA recommends:

- Review the administrative requirements of all bodies interacting with small businesses
- Develop a burden reduction action plan, in consultation with business
- Enhance customer service and business training for staff interacting with small businesses
- Enhance coordination between government bodies to ensure frontline staff are acting in line with government policy (e.g. Tourism Ireland and local planning offices)

#9 Improve access of indigenous small businesses to research funding

A major gap in supports exists around the activities of the state research funding agencies, and in particular Science Foundation Ireland. SFI's funding schemes are very much geared towards large, primarily foreign owned, multinational companies. It is difficult for small firms to leverage the same level of interest or support.

Specific schemes designed to meet the needs and resources of indigenous small firms would have the potential to unleash a major increase in IP generation capability and open up international markets for many companies, leading to significant potential job creation.

#10 Review supports available for domestically trading sectors that currently receive little government support

Members in many sectors feel that the government offers them little support, while providing extensive grants to other businesses. In particular in the context of Brexit, this situation requires review and redress. There are many services businesses in the border region, for example, which have significant cohorts of Northern Ireland clients crossing the border to access their services. Currency fluctuations have made this uneconomical for many customers/clients and the Irish businesses are suffering.

A review of the supports available sector by sector should be carried out, with a view to enhancing the government's offering to underserviced sectors.

THEME: Supporting and fostering enterprise

#11 More practical use of the Irish embassy network to generate local business leads for companies

The Irish embassy network should be more engaged at the practical level of making local business contacts and generating leads for Irish companies, including non-Enterprise Ireland clients. UK Trade and Investment is very successful at providing this support to British companies and provides a model that could be implemented in the Irish diplomatic and trade service.

Currently only 6.4% of Irish exports come from small companies. This measure would increase the capacity of small Irish businesses to scale by giving them access to foreign markets. This is more important than ever in light of Brexit.

The actions required to realise this goal include:

- Training for embassy staff
- Business development targets for each embassy

#12 Create structures to encourage second chance entrepreneurship

Creating a culture of entrepreneurship and risk taking is essential to driving economic growth and job creation. Central to this is an acceptance of failure and the existence of an environment conducive to starting again. In Ireland, however, the social stigma of failure stifles second chance entrepreneurship.

The SFA strongly believes that Government policies should support businesses at risk of failure and encourage entrepreneurs back into business as quickly as possible after bankruptcy. Advice and mentoring should be available to people whose businesses have failed.

The SFA recommends:

- Establish a working group to make proposals on serial and second chance entrepreneurship
- Conduct a review of the early-warning and second chance programmes that exist in other European countries, for example Denmark and the UK
- Make specific mentoring supports, active learning networks and streams of finance available to people looking to set up again following a failed venture

#13 Phase in employer PRSI for new companies

Phase in employer's PRSI, so that new businesses pay reduced rates of employer PRSI on staff they recruit in their first three years.

For example:

- 25% for staff recruited in year 1
- 50% for staff recruited in year 2
- 75% for staff recruited in year 3
- The full rate on later recruitment

This measure would incentivise early hiring. It would also encourage people to overcome the barrier of hiring their first employee, which is a major challenge that many self-employed people never overcome. This would unlock further employment growth in those businesses.

THEME: Accelerating regional development and growth;

#14 Ensure all areas have access to broadband and good mobile service

Ireland needs full regional coverage of high speed broadband in the short term. Currently, a two-speed economy is being created by incomplete coverage. Towns that have received fibre broadband have seen a high proportion of people considering setting up businesses. In other areas, however, now that the school term has started, there is virtually no service available from 5-10pm ('homework time').

Government and private sector providers must work together to deliver the National Broadband Plan without any further delays.

#15 Build the capacity of community enterprise centres

The explosion in the number of community enterprise centres, which provide enterprise and incubation space and hands-on supports for start-up and early-stage enterprises, has provided highly-effective support for a significant number of small companies around the country.

There is scope to develop this resource by supporting new community enterprise centres to establish and assisting existing centres to expand their capacity and range of services.

This initiative could make a strong contribution to the Government's goal of creating 135,000 jobs outside Dublin.

THEME: Delivering the skills for maintaining a talented and dynamic workforce

#16 Roll out a skills health check for small firms

Good management skills are key components of business growth in any economy. International studies have highlighted weaknesses in the area of management capacity in Ireland. One of the specific skills that is lacking is the ability to reflect on and assess the owner-manager's own skill set and the skills gaps that exist across the company.

A free skills health check should be made available to small firms through Skillnets and the Local Enterprise Offices, possibly combining online and face-to-face elements.

#17 Reorientation of National Training Fund to activate in-work training

In light of falling unemployment, the National Training Fund should be re-oriented to focus on in-work training, in particular through Skillnets and specifically its Management Development programme targeting small business.

Previous studies have found that manufacturing firms in Ireland had poor management practices, lagging considerably behind their counterparts in the US and UK. They also found

that Ireland had a long tail of poorly performing firms which was not seen in other countries, which was covered over by some very high scoring multinationals. Irish domestic firms in general were 20% behind multinationals in terms of management practices.

This demonstrates the necessity of training managers and staff in small companies. Employers pay into the National Training Fund through a levy and the fund is ring fenced for training purposes, yet it is not clear how the money is spent or how it can be accessed by firms.

THEME: Addressing new labour market challenges, such as expanding labour market participation across all sections of society

#18 Commission a study on the labour market implications of automation with a view to developing a whole-of-government roadmap

Automation and artificial intelligence is on track to transform our economy and labour market within a generation. This has significant implications for defining skills needs and ensuring that we have enough engineers and technology specialists coming through our education systems that will be able to maintain these systems. Even more urgently, thorough consideration is needed in terms of the labour market implications of automation, as many current roles become obsolete.

The SFA proposes that government should commission a detailed study on the implications of automation and artificial intelligence for the Irish economy and labour market. This study should feed into the development of a roadmap or action plan.

THEME: Ensuring access to competitive finance

#19 Limit right of banks to ask for personal guarantees

There is a need to stop banks insisting on personal guarantees for all small business borrowing. We have reports that banks are now seeking personal guarantees even for a business credit card facility. One member has reported that this is in addition to a requirement for a lien over double the amount of the proposed credit limit. Banks must be required to do at least some lending unsecured. This should be incorporated into the Central Bank regulations on lending to SMEs.

#20 Establish a Government-led working group on equity finance

Culturally in Ireland, most small business owners are averse to taking equity investments in their businesses. This curtails their growth as they are limited to what they can achieve with their own cashflow/reserves or bank lending. Businesses now need to scale faster than ever to be successful so this has become a serious barrier.

This issue merits the establishment of a government-led working group to specifically examine how to improve access to equity investment in Ireland.

Our initial recommendations include substantially improving the EIIS Scheme to make it easy for family and friends to invest in a business in the form of redeemable preference shares. Enhancing angel and VC structures are also critical. Education and the facilitation of easier access to various forms of equity is critical – people must believe that owning 70% of something big is better than owning 100% of something small.

#21 Increase promotion of Government enterprise supports

There are over 80 different government supports available to small businesses but many of them are not well known or understood.

It is important that budget is provided to create maximum awareness of all available programmes. This must be provided in addition to the financial resources to cover the design, development and delivery of programmes.

#22 Increase threshold for investment of private pension funds in business

There are billions of Euros in private pension funds that are restricted from investment as follows:

A private pension fund may invest a maximum of five percent of their fund value into a private unconnected company and may not hold more than ten percent of that company stock. Permission for the investment must be sought from Revenue.

Failure to change the rules means that some entrepreneurs are transferring their pension fund to the UK and moving their proposed start-up to Northern Ireland in order to make the investment through a UK Self-Investment Personal Pension (SIPP). The UK system acknowledges that those who invest in a small company have some control as a board member to protect their investment.

The unconnected rules of investment by Irish Revenue are preventing business from growing. A system based on the UK SIPP model should be introduced in Ireland.

#23 Extend Small Claims remit for B2B debts

Extend the Small Claims Court remit for B2B debts from a limit of €2,000 to €15,000. This would provide small firms with a more cost effective option to pursue outstanding debts rather than the expensive process of the traditional court system.

Contact information

For further discussion or clarification on the points raised above, please contact Linda Barry, SFA Assistant Director, on 01 6051626 / 087 1472811 or at linda.barry@sfa.ie.